

Edmund Phelps on Grassroots Innovation

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Edmund Phelps emphasizes the critical role of innovators and entrepreneurs in driving economic growth and societal advancement. According to Phelps, innovators are individuals who introduce new products, processes, or ideas that fundamentally change the way industries or societies operate. These innovations are not merely incremental improvements but are often disruptive, leading to significant shifts in economic activity and productivity.

Entrepreneurs, on the other hand, are those who take on the risk of bringing these innovations to market. They are the ones who recognize the potential of an innovative idea and mobilize resources to turn that idea into a viable business or product. Entrepreneurs are characterized by their willingness to take risks, their ability to recognize opportunities, and their persistence in overcoming obstacles.

Phelps argues that the dynamism of an economy—its ability to generate new ideas and bring them to fruition—is largely dependent on the presence and activity of these innovators and entrepreneurs. They are the drivers of what he calls "mass flourishing," a state where widespread innovation leads to broad-based economic growth and improves the well-being of society as a whole.

In Phelps' view, the greatest economic advancements have occurred when societies have provided the freedom and support for individuals to innovate and take entrepreneurial risks. This includes the development of a culture that values creativity, the establishment of institutions that protect intellectual property, and the creation of financial systems that provide the necessary capital for new ventures.

Phelps' ideas highlight the importance of not just technological or capital investment but also the cultural and institutional environment that nurtures and supports innovation and entrepreneurship. He contrasts this with economies where innovation is stifled by rigid structures, lack of incentives, or excessive control, which can lead to stagnation or limited growth.

The concepts of innovators and entrepreneurs proposed by Edmund Phelps and Joseph Schumpeter address different aspects of economic dynamics and innovation. Here's a comparison of their views:

- Edmund Phelps: Innovators and Entrepreneurs

1. **Focus on Individual Contributions**:

- **Phelps** emphasizes the role of individual innovators and entrepreneurs as key drivers of economic growth and progress. His approach focuses on how individual actions and decisions contribute to broader economic outcomes.

- **Phelps' Innovators** are those who bring forth new ideas and technologies that contribute to economic development. They are characterized by their ability to create and commercialize innovations that lead to increased productivity and growth.

2. **Role of Institutions**:

- **Phelps** highlights the importance of institutional frameworks and incentives in fostering innovation. He argues that economic policies and institutional environments play a crucial role in shaping the incentives for innovation and entrepreneurship.

- His work often stresses the need for an institutional setup that supports risk-taking and provides rewards for successful innovation.

3. **Emphasis on Human Capital**:

- **Phelps** places significant importance on human capital, suggesting that the quality and skills of the workforce are critical for innovation and economic performance. He believes that educated and skilled individuals are more likely to become successful innovators.

• Joseph Schumpeter: Innovators and Entrepreneurs

1. **Focus on Economic Structure and Dynamics**: - **Schumpeter** is known for his concept of "creative destruction," where innovation disrupts existing economic structures and creates new ones. He sees entrepreneurs as agents of change who drive economic transformation by introducing new products, processes, or business models. - **Schumpeter's Entrepreneurs** are those who disrupt the status quo by implementing innovations that replace old technologies or practices. This process of destruction and creation is fundamental to Schumpeter's view of economic development.

2. **Role of Innovation in Economic Cycles**: - **Schumpeter** views innovation as a key driver of economic cycles and fluctuations. He argues that entrepreneurial activities lead to periods of economic boom and bust, as new innovations periodically disrupt and transform the economy. - For Schumpeter, entrepreneurs are central to the economic cycle, acting as catalysts for both growth and economic fluctuations.

3. **Creative Destruction**: - **Schumpeter's Concept**: He introduced the term "creative destruction" to describe the process through which innovation leads to the obsolescence of old industries and the emergence of new ones. This dynamic is central to his theory of economic development.

Key Differences:

- **Focus**: Phelps focuses more on the individual and institutional factors that influence innovation and entrepreneurship, while Schumpeter emphasizes the broader economic impact of innovation through the concept of creative destruction.

- **Role of Innovation**: For Phelps, innovation is an individual-driven process that requires supportive institutions. For Schumpeter, innovation is

a disruptive force that drives economic change and is central to the economic cycle.

- ****Impact on Economy****: Phelps views innovation as a means to enhance productivity and growth within a stable institutional framework, whereas Schumpeter sees it as a force that disrupts and reshapes the economy, leading to cycles of expansion and contraction.

- Edmund Phelps and Joseph Schumpeter have distinct views on the roles of innovators and entrepreneurs in driving economic growth and dynamism.

Phelps' Innovators and Entrepreneurs:

Phelps, in his book *Mass Flourishing*, emphasizes the importance of grassroots innovation and the role of every individual in contributing to economic dynamism. For Phelps, innovation is not limited to the application of scientific research and development (R&D) results, as Schumpeter suggests. Instead, Phelps believes that ordinary people—what he calls "indigenous innovators" or "grassroots innovators"—can also be entrepreneurs and innovators. These are people who, through their creativity, personal initiative, and drive, contribute to economic growth by finding new ways of doing things, developing new products, or improving processes in ways that are often overlooked by larger, more established firms.

Phelps argues that this widespread participation in innovation is a key driver of "mass flourishing," which he defines as a broad-based increase in well-being, creativity, and satisfaction across society. In Phelps' view, economic dynamism comes from this grassroots level of innovation, where individuals find meaningful and fulfilling work, contributing to the overall satisfaction and prosperity of a nation.

Schumpeter's Innovators and Entrepreneurs:

Joseph Schumpeter, on the other hand, views innovation primarily as the domain of the "elite innovator," often within the context of large firms or through the application of R&D. Schumpeter's entrepreneur is someone who takes the results of scientific and technological research and applies them to create new products, services, or methods of production. This process, which Schumpeter famously termed "creative destruction," involves disrupting existing markets and industries by introducing groundbreaking innovations that render old technologies and practices obsolete.

In Schumpeter's framework, the entrepreneur is a key figure in economic progress, but this role is typically reserved for individuals with access to significant resources, knowledge, and capital—often those at the top of the economic hierarchy. This contrasts sharply with Phelps' view that innovation can and should come from the grassroots level, involving a much broader segment of society.

Key Differences

- ****Source of Innovation****: Phelps sees innovation as something that can emerge from anyone, particularly from the grassroots level, whereas Schumpeter views innovation as the result of elite entrepreneurs applying R&D findings.

- **Role of the Innovator**: For Phelps, every common person has the potential to be an innovator or entrepreneur, contributing to economic dynamism. Schumpeter's innovators, by contrast, are typically seen as the driving forces behind significant, large-scale changes in the economy.

- **Impact on Society**: Phelps' concept of innovation is tied to the idea of mass flourishing, where widespread participation in innovation leads to broader societal well-being. Schumpeter's focus is more on the economic impacts of innovation, particularly through the process of creative destruction.

This broader conception of innovation aligns with Phelps's idea of a good life, inspired by Aristotle, where meaningful work and the opportunity for self-expression are available to all, contributing to both personal and national satisfaction. This stands in contrast to Schumpeter's view, where innovation is often seen as the domain of a few, leading to significant but more concentrated economic changes.

- Edmund Phelps' concept of economic dynamism is rooted in a vision of the economy where innovation and entrepreneurship are widespread and accessible to the general population, not just the elite. This vision contrasts with traditional economic models that often emphasize the role of established firms, experts, and highly educated individuals in driving economic progress.

Here's a breakdown of the key elements of economic dynamism according to Phelps:

1. **Grassroots Innovation** - **Definition**: Grassroots innovation refers to creative and entrepreneurial activities that originate from ordinary individuals rather than from large, established companies or elite innovators. These innovators are often motivated by a desire to improve their own lives and communities, rather than by financial incentives alone. - **Significance**: Phelps argues that economic dynamism thrives when innovation is decentralized and driven by a broad base of the population. This kind of innovation leads to a more vibrant economy, as it encourages a continuous flow of new ideas and products, which, in turn, stimulate growth and development.

2. **Meaningful Jobs** - **Definition**: Phelps emphasizes that work should be fulfilling and meaningful, not simply a means to earn a living. He contrasts this with the traditional economic view that sees work as a disutility—a necessary burden to achieve material well-being. - **Significance**: Meaningful work is critical to economic dynamism because it motivates individuals to engage creatively and passionately in their tasks. When people find their work meaningful, they are more likely to innovate, take risks, and contribute to the broader economic environment. This sense of fulfillment can also lead to higher productivity and greater job satisfaction, further fueling economic growth.

3. **Satisfaction of Nations** - **Definition**: This concept refers to the broader sense of well-being and fulfillment experienced by a society as a whole. It goes beyond material wealth to include factors like social cohesion, cultural richness, and a sense of purpose among the population. - **Significance**: For Phelps, the satisfaction of nations is a crucial outcome of a dynamic economy.

When a nation's citizens are satisfied and feel that they are contributing meaningfully to society, the economy is more likely to be resilient and adaptable. This satisfaction fosters a sense of national pride and collective purpose, which can lead to sustained economic prosperity.

- For Phelps, while grassroots innovators and entrepreneurs play a crucial role in driving economic dynamism, they are not regarded as the "kings" of the economy. This idea reflects Phelps' broader vision of an economy that thrives on widespread participation and collective contribution rather than being dominated by a few individuals or elites.

Clarification and Details:

1. Decentralization of Innovation: - Phelps emphasizes that economic dynamism arises from a decentralized process where innovation is not the exclusive domain of a select few but is accessible to a wide range of individuals across society. Grassroots innovators contribute significantly to this process, but they are part of a larger, more complex economic system that relies on many participants, not just a few "kings."

2. Collective Contribution: - In Phelps' view, the success of an economy depends on the collective contributions of ordinary people who engage in creative and entrepreneurial activities. This collective effort is what drives economic progress, not the dominance of a few powerful individuals or firms. Thus, while grassroots innovators are important, they are not seen as ruling the economy.

3. Interconnected Roles: - Phelps sees the roles of innovators, entrepreneurs, workers, and consumers as interconnected and mutually supportive. No single group dominates the economy; instead, it is the interaction and collaboration between these groups that creates a dynamic and thriving economic environment.

4. Economic Equality: - By not elevating grassroots innovators to the status of "kings," Phelps advocates for a more egalitarian economic system where everyone has the opportunity to contribute and benefit from economic progress. This approach challenges the traditional view that a few key players or sectors drive the economy, instead highlighting the importance of widespread participation and shared prosperity.

In summary, Phelps' vision of economic dynamism is one where no single group, including grassroots innovators and entrepreneurs, holds disproportionate power or influence over the economy. Instead, economic success is seen as the result of broad-based participation and the contributions of many individuals working together.

- Deirdre McCloskey's concept of "innovism" and Edmund Phelps's idea of "grassroots innovation" share a focus on the importance of innovation in driving economic growth, but they differ significantly in their emphasis on where this innovation originates and how it is sustained.

McCloskey's innovism is rooted in a cultural and rhetorical shift that occurred in the 17th and 18th centuries, which she argues was central to the Great

Enrichment—the unprecedented economic growth that began during this period. For McCloskey, this shift involved a societal revaluation of commerce, entrepreneurship, and the bourgeois virtues of prudence, trust, and innovation. Innovism, as she defines it, is the celebration and legitimization of these activities within society. McCloskey contends that this change in how society talked about and valued economic activity was crucial for enabling sustained economic growth. In her view, innovation was driven not just by individual initiative but by a broader cultural environment that encouraged and honored entrepreneurial activities.

In contrast, Edmund Phelps’s concept of grassroots innovation emphasizes the role of individualism, vitalism, and self-expression in driving economic dynamism. Phelps argues that innovation often comes from ordinary individuals who are motivated by a desire for personal fulfillment, creativity, and the expression of new ideas. This grassroots innovation is decentralized and widespread, driven by a culture that values individual autonomy and creativity. Phelps’s focus is on the intrinsic motivations of individuals, suggesting that economic dynamism arises from the bottom up, with countless individuals contributing new ideas and innovations. While McCloskey highlights the societal and cultural shifts that made innovation possible, Phelps emphasizes the role of the individual as the primary source of economic dynamism, driven by personal desires rather than solely by economic incentives.

The differences between McCloskey and Phelps become even more apparent when considering their views on the role of institutions. McCloskey acknowledges the importance of institutions like property rights and the rule of law, but she argues that these are secondary to the cultural and rhetorical shifts that enable innovation. For McCloskey, the key to sustained economic growth is not just the development of better institutions but the societal transformation that legitimizes and encourages entrepreneurial activities. Innovism, in her view, is about the cultural environment within which institutions operate, rather than the institutions themselves being the primary drivers of innovation. Phelps, on the other hand, sees institutions as important enablers of individual creativity and grassroots innovation. He argues that institutions should create an environment where individuals feel free to express themselves, experiment, and pursue new ideas. However, the real spark of innovation comes from within individuals, and institutions play a supporting role by providing the freedom and resources necessary for this grassroots innovation to flourish.

In summary, while both McCloskey and Phelps recognize the importance of culture and institutions in fostering innovation, their approaches differ in emphasis. McCloskey focuses on the broader cultural and rhetorical shifts that redefined how society viewed commerce and entrepreneurship, arguing that this societal endorsement of innovation was crucial for the economic growth of the modern era. Phelps, in contrast, emphasizes the role of individualism and personal motivation, arguing that economic dynamism comes from the grassroots level, driven by individuals’ desires for self-expression and creativity. These differences highlight the complementary nature of their perspectives: McCloskey’s innovism focuses on the cultural conditions that make innovation possible, while

Phelps's grassroots innovation underscores the individual creativity that drives economic dynamism from the ground up.